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C O N F I D E N T I A L SECTION 01 OF 02 MINSK 001142

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SUBJECT: HOSIERY, HYPERMARKETS AND HOT RODS; ECONOMIC
MINI-MIRACLES IN MINSK

REF: MINSK 1117

Classified By: Ambassador Karen Stewart for reason 1.4 (d).

Summary

¶1. (C) The first-time visitor to Minsk will quickly notice pockets of conspicuous consumption belying tour book descriptions of Belarus as a museum of all things Soviet. On the road from the airport one will pass new multi-story dachas, a Porsche dealership and a billboard advertising designer lingerie. These monuments to capitalism demonstrate that while the average Belarusian still lives modestly on average wages of USD 260 per month, entrepreneurs successfully cater to a small emerging upper-middle class. It remains unclear, however, how this segment of the population fits into Lukashenko's attempts to justify his rule based upon a supposedly socially oriented economic policy. End summary.

¶2. (SBU) Emboffs spoke to executives in several of the most visible firms in Minsk catering to clients at the upper end of the economic spectrum: Viktor Petrovich, Director and partner in the holding company Tabak Invest, which opened Minsk's newest hypermarket; Inna Maslennikova, General Director of Merlinton, a travel agency specializing in individualized foreign tours; Sergey Kusonovskiy, Deputy Director of Milavitsa, a lingerie manufacturer and retailer focusing on the middle class and "middle class plus" market segments; Aleksey Dunayevskiy, Director of Sales and Marketing for Mir Fitnessa, the only gym in Minsk in a purpose built facility; Igor Razumovskiy, the General Director of Avtosalon-AV, the exclusive dealer in Belarus for Audi and Porsche; and Vladimir Lopanik, Chair of the Board of Aresa Service Construction Firm.

Let the Good Times, and Good Sales Figures, Roll

¶3. (SBU) Each executive who discussed sales figures described solid growth. Sales of Audis are up 23 percent at Avtosalon-AV, and this year's entire allotment of 30 Porsche Cayennes (SUVs retailing for 110,000 Euros) has been sold. Milavitsa's sales in Belarus have increased fifteen percent this year, with high-end designer lingerie and swimwear accounting for an ever-greater proportion of its sales. Merlinton has seen sales increases each year since opening in 1995. Sales projections for the next year are higher for all the firms as well. To take one case, Mir Fitnessa plans to expand its membership from the current 3,000 to 4,000 people by the end of 2007.

Who Can Afford This Stuff?

¶4. (SBU) The success of businesses targeting high-end clientele does not indicate that the average Belarusian is about to join the middle class, whatever the definition. A survey in August (reftel) revealed that only four percent of Belarusians said they could comfortably afford large purchases such as furniture, a car or an apartment. In fact, the majority said they could barely afford new clothes.

¶5. (SBU) The new and still small Belarusian middle class is largely located in Minsk. Of the firms we spoke to, only Milavitsa has sales points outside of the capital. None of the others plan to expand outside of Minsk, although Avtosalon-AV found a repair shop in Gomel for Audi to certify. While residents of other regional capitals have come to Minsk to buy a new Audi, only one Porsche has been sold to someone from the regions (from Gomel). Merlinton gets some of its business from outside of Minsk, but all clients flying out of Belarus must come to Minsk anyway, meaning there is little reason to expand into the regions.

¶6. (SBU) Our interlocutors said independent entrepreneurs and managers in mid- to senior-level positions in large companies make up most of their client base. Accordingly, most of those with buying power tend to be middle-aged, having built up their own business or advanced up the corporate ladder over the past decade. However, companies with a heavily female customer base also seek twenty-something clientele. For Mir Fitnessa, the female customers include many stay-at-home mothers, judging by its full schedule of yoga classes throughout the day and the availability of on-site childcare. Mir Fitnessa's Dunayevskiy indicated that there were enough students with disposable income -- at least four

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percent of the student body at the main universities -- to consider opening health clubs near campuses.

¶7. (SBU) A shadow economy supports at least some of those able to afford luxuries. Aresa's Lopanik freely admitted that given the unavailability of mortgages, few Belarusians could afford new apartments on their official salaries. The government recognized this, and purposely excluded real estate purchases from legislation requiring large purchases to be reported to the tax authorities in order not to further hamper the real estate market.

But We're Not Talking About Moscow

¶8. (SBU) While buying power in Minsk exceeds newcomers' expectations, several businessmen pointedly compared local development negatively with that of Moscow and Russia generally. Kusonovskiy noted Milavitsa's sales growth in Belarus in the last two years was less than half that of its growth in its largest market, Russia. Similarly, Dunayevskiy estimated the level of per capita gym membership in Minsk remained at least one-third lower than that in Moscow. Lopanik said the local housing market remains years behind Russia's due to the absence of mortgage legislation.

¶9. (C) In line with perceptions that Belarus remains more egalitarian than its neighbor to the east, there is still no market for extremely high-end products in Minsk. Tabak Invest has formed a company to import personal helicopters in Belarus, but its first customer is likely to be the Presidential Administration. Avtosalon AV does not see a sufficient market for cars significantly more expensive than Porsches. Razumovskiy noted there were still only three Bentleys registered in Belarus.

Comment: The Middle Class as a Challenge to Lukashenko?

¶10. (C) Most of Lukashenko's support continues to come from

the majority of Belarusians who just manage to make ends meet: pensioners, rural dwellers, and veterans. Indeed, despite the success of our interlocutors' companies in dealing with the authorities, none of them seemed enamored with the current government. The increasing visibility of a middle class, however small by Western standards, would seem to pose two challenges to Lukashenko. First, the average Belarusian might begin to wonder why the sustained economic growth often mentioned by Lukashenko has only allowed a relative few to reap the rewards. Second, a highly mobile middle class might theoretically begin to compare their lifestyles unfavorably with those of their counterparts in neighboring countries and begin to support change. However, given the heavy reliance of the businesses and many of their clients on the regime (septel), it would be difficult to find room to seek independence, let alone move into the opposition, without risking the very foundation of their newfound wealth.

Stewart